COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PURCHASED GAS ADJUSTMENT FILING OF KENTUCKY FRONTIER GAS, LLC	)))	CASE NO. 2017-00027

ORDER

On April 30, 2013, in Case No. 2011-00443, the Commission approved rates for Kentucky Frontier Gas, LLC ("Frontier") and provided for their further adjustment in accordance with Frontier's Purchased Gas Adjustment ("PGA") clause.[1]

On January 3, 2017, Frontier filed its PGA application for rates effective February 1, 2017. In its cover letter, Frontier requested an extension of the deviation from the 5 percent limit for costs relating to Lost & Unaccounted for gas ("L&U"). On January 10, 2017, Frontier filed a request for a waiver of the 30-day notice requirement so that its proposed rates could be effective February 1, 2017. In support of its request for a shortened notice period, Frontier stated that, although its filing was mailed via overnight delivery on December 29, 2016, due to the New Year's holidays on December 30, 2016, and January 2, 2017, it was not received by the Commission until January 3, 2017.

As a result of the relatively high level of L&U gas that it has consistently experienced since May 2013, Frontier proposes to continue calculating its Actual Adjustment ("AA") without limiting its gas cost recovery for L&U, and to limit its L&U to

[1] Case No. 2011-00443, *Application of Kentucky Frontier Gas, LLC for Approval of Consolidation of and Adjustment of Rates, Approval of AMR Equipment and a Certificate of Convenience and Necessity for Installation of AMR, Pipeline Replacement Program, Revision of Non-Recurring Fees and Revision of Tariffs* (Ky. PSC Apr. 30, 2013).

10 percent instead of 5 percent in the calculation of its Expected Gas Cost ("EGC"). Similar treatment has been approved by the Commission in each of Frontier's PGA cases beginning with Case No. 2014-00304.[2] In the final Orders in each of those proceedings, the Commission found that passing through line loss greater than 5 percent in the calculation of Frontier's EGC and AA, and in the final reconciliation of gas cost through the Balance Adjustment ("BA"), was reasonable, but concluded that any future request for deviation from its PGA tariff in passing through line loss greater than 5 percent should include both a detailed discussion of Frontier's efforts to decrease the incidence of gas loss on its system and projections for when such losses are expected to decrease to 5 percent or below.

Frontier reported in the cover letter to its PGA application in Case No. 2016-00135[3] that it had upgraded its construction equipment by adding a boring machine in an effort to improve the pace of its Pipe Replacement Program ("PRP"). Frontier further stated in Case No. 2016-00227[4] that the addition of the boring machine for the 2016 construction season enabled it to replace several thousand feet of pipe in the Belfry portion of its system, which it expected to provide the best results for reducing L&U on its system. In Case No. 2016-00348, Frontier stated that in 2017 it expects to replace approximately 10,000 additional feet of pipe, with an anticipated 90 percent in the Belfry

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[2] Case No. 2014-00304, *Kentucky Frontier Gas, LLC Purchased Gas Adjustment Filing and Petition for Waiver* (Ky. PSC Oct. 31, 2014).

[3] Case No. 2016-00135, *Purchased Gas Adjustment Filing of Kentucky Frontier Gas, LLC* (Ky. PSC April 7, 2016).

[4] Case No. 2016-00227, *Purchased Gas Adjustment Filing of Kentucky Frontier Gas, LLC* (Ky. PSC July 21, 2016).

portion of its system.[5] In its cover letter in this proceeding, Frontier states that it is continuing its intensive effort to reduce L&U, and that the Belfry portion of its system continues to be an area of major concern and effort.[6]

In the cover letters to previous PGA applications, Frontier stated that it believed it was reasonable to estimate that L&U could be 5 percent by late 2017. Its current application reflects L&U for the 12 months ended October 31, 2016, of 18 percent, partially due to a major butt fusion joint failure that was undetected during July and August 2016.[7]

As noted above, Frontier's proposed EGC calculation does not include the standard 5 percent line loss limit, but instead limits its 18 percent 12-month L&U to 10 percent. Frontier proposes to calculate its AA based on its actual cost of gas for the quarter, with no limit on L&U volumes. Based on purchase and sales volumes provided in Frontier's AA calculation, line losses for the three months ended October 31, 2016, were approximately 40 percent, which can be attributed in large part to the previously discussed joint fusion failure.[8]

After reviewing the record in this case and being otherwise sufficiently advised, the Commission finds that:

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[5] Case No. 2016-00348, *Purchased Gas Adjustment Filing of Kentucky Frontier Gas, LLC* (Ky. PSC Oct. 27, 2016). Response to Commission Staff's First Request for Information, Item 4.

[6] Cover letter to Application.

[7] Case No. 2016-00348, Frontier's Response to Staff's First Request, Item 1.a.

[8] *Id*.

1. Frontier's notice includes revised rates designed to pass on to its customers its expected change in wholesale gas costs and to recover its actual past cost of gas with no limit on L&U cost recovery.

2. Frontier's request for continuation of the deviation from its PGA tariff in passing through line loss greater than 5 percent in the calculation of its EGC and instead limiting its 18 percent line loss to 10 percent is reasonable and should be approved. Based on Frontier's intent to continue efforts in the Belfry portion of its system and the previously discussed repair of the leak in the Auxier portion of its system, an L&U limit of 10 percent appears reasonable for projecting Frontier's gas cost through the EGC. This is consistent with our finding in Case Nos. 2016-00227 and 2016-00348. The Commission further finds that Frontier's request to include L&U greater than 5 percent in the calculation of its current quarter AA is reasonable based on the leak and subsequent repair as documented in Case No. 2016-00348.

3. Frontier's next PGA application should include a detailed update of its efforts to decrease the incidence of gas loss on its system, and a discussion of the likelihood that its L&U will be reduced to 5 percent or below by the end of this year.

4. Frontier's notice sets out an EGC of $6.2939 per Mcf based on its use of a Columbia Gas of Kentucky ("Columbia") Intrastate Utility Service ("IUS") rate that is no longer in effect and has since been increased.[9] Correcting this produces an EGC of $6.3079 per Mcf, which is an increase of $.7672 per Mcf from the previous EGC of $5.5407 per Mcf.

4. Frontier's notice sets out no current Refund Adjustment.

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[9] *See* Case No. 2016-00162, *Application of Columbia Gas of Kentucky, Inc. for an Increase in Base Rates* (Ky. PSC Dec. 22, 2016).

5. Frontier's notice sets out a current quarter AA of $.3207 per Mcf. Frontier's total AA is $.3065 per Mcf, which is an increase of $.3104 per Mcf from its previous total AA of ($.0039) per Mcf.

6. Frontier's notice sets out a current quarter BA of $.0604 per Mcf. Frontier's total BA is ($.0910) per Mcf, which is an increase of $.0568 per Mcf from its previous total BA of ($.1478) per Mcf.

7. Frontier's corrected Gas Cost Recovery ("GCR") rate is $.65234 per Ccf, or $6.5234 per Mcf, which is an increase of $1.1344 per Mcf from its previous rate of $5.3890 per Mcf.

8. KRS 278.180(1) requires Frontier to provide the Commission with 30 days' notice of any change in rates. Based on Frontier's application's acceptance for filing as of January 3, 2017, the earliest that Frontier's new rates and tariff can be effective is February 2, 2017, rather than its requested effective date of February 1, 2017.

9. Frontier's request to shorten its notice to the Commission by one day and to permit its change in rates to go into effect on February 1, 2017, rather than on February 2, 2017, is based on the closure of the Commission's offices on Friday, December 30, 2016, and Monday, January 2, 2017, for the New Year's holidays, and on the closure of the Commission's offices on Saturday, December 31, 2016, and Sunday, January 1, 2017, is reasonable and should be approved.

10. The revised rates as set forth in the Appendix to this Order are fair, just and reasonable, and should be approved for service rendered by Frontier on and after February 1, 2017.

IT IS THEREFORE ORDERED that:

1. Frontier's request to shorten its notice to the Commission from 30 days to 29 days and for its new rates to be effective for service rendered on and after February 1, 2017, is granted.

2. The rates proposed by Frontier are denied.

3. The rates set forth in the Appendix to this Order are approved for final meter readings by Frontier on and after February 1, 2017.

4. Within 20 days of the date of this Order, Frontier shall file with this Commission, using the Commission's electronic Tariff Filing System, revised tariff sheets setting out the rates approved herein and reflecting that they were approved pursuant to this Order.

5. Frontier shall include in its next PGA application for rates to be effective May 1, 2017, a detailed update of its efforts to decrease the incidence of gas loss on its system, and a discussion of the likelihood that its L&U will be reduced to 5 percent or below by the end of this year.

By the Commission

ENTERED
JAN 26 2017
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:

Aaron D. Greenwell

Executive Director

for

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2017-00027 DATED JAN 26 2017

The following rates and charges are prescribed for the customers in the area served by Kentucky Frontier Gas, LLC. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

Residential and Small Commercial

	Base Rate	Gas Cost Rate	Total
Customer Charge	$10.00		
All Ccf	$ .42023	$.65234	$1.07257

Large Commercial

	Base Rate	Gas Cost Rate	Total
Customer Charge	$50.00		
All Ccf	$ .34454	$.65234	$.99688

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